



The Administration's Housing Strategy and Economic Update

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Agenda

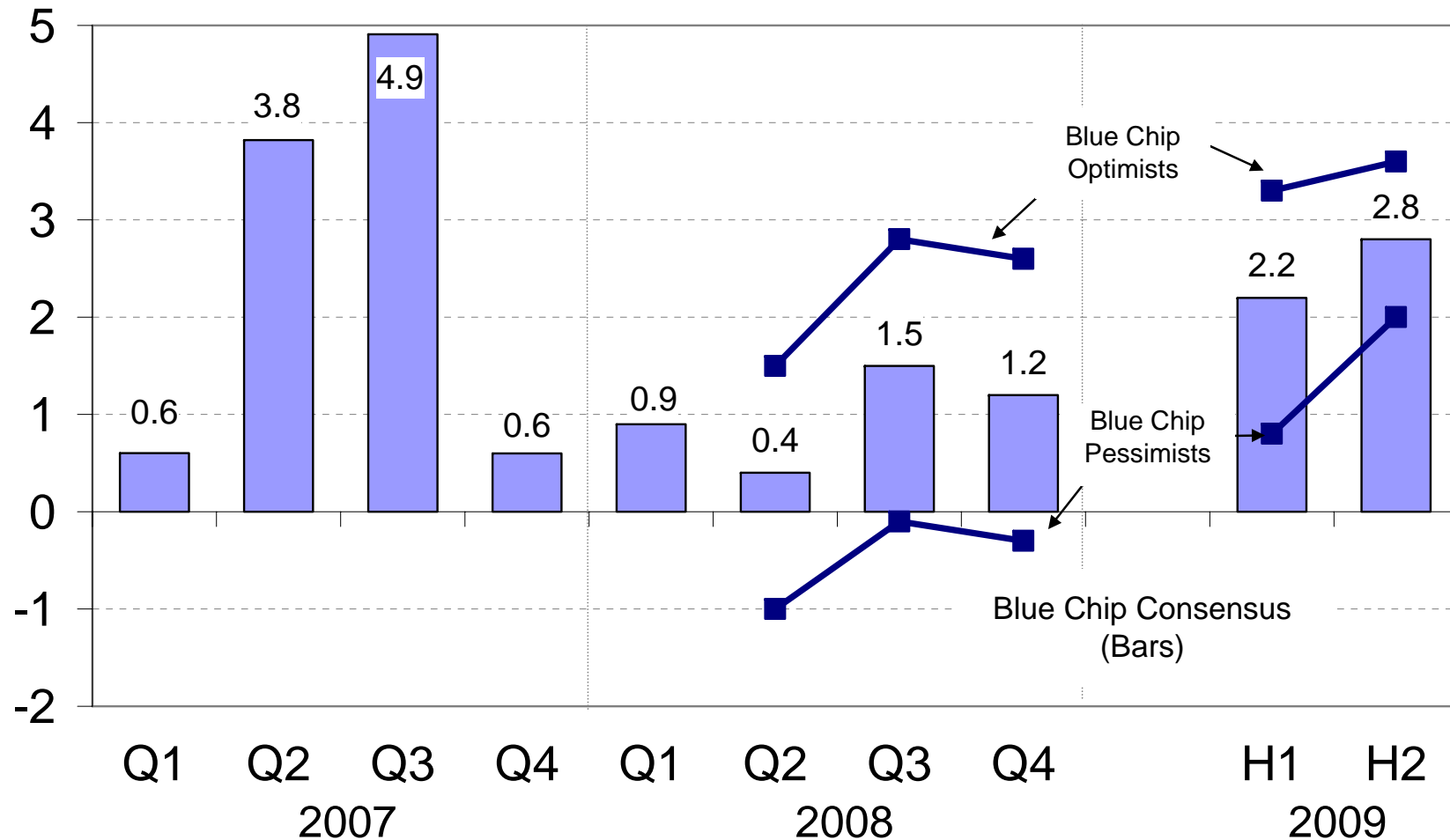
- Macro overview
- Housing market run-up
- The foreclosure problem
- The Administration's plan to deal with it
- Measuring results
- Looking forward
- Discussion



Slowdown and Recovery

Blue Chip Scenario for GDP Growth

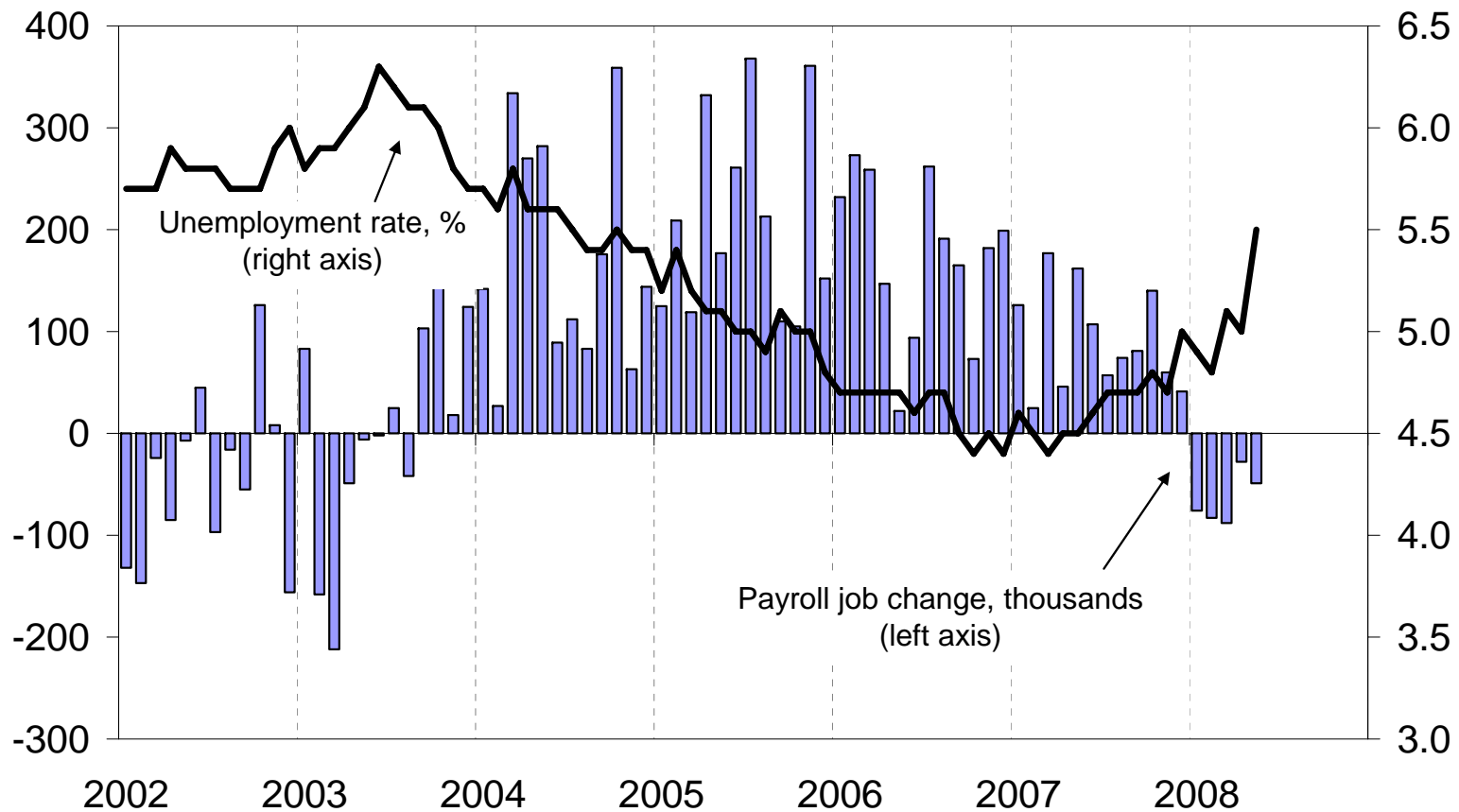
Percent changes at annual rates





Labor Market Slowdown

Unemployment Rate and Monthly Change in Total Nonfarm Payroll



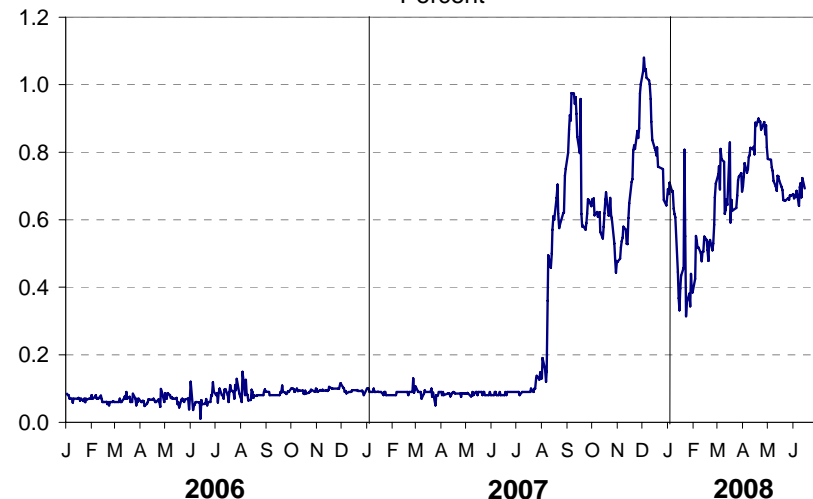


Financial Market Stresses

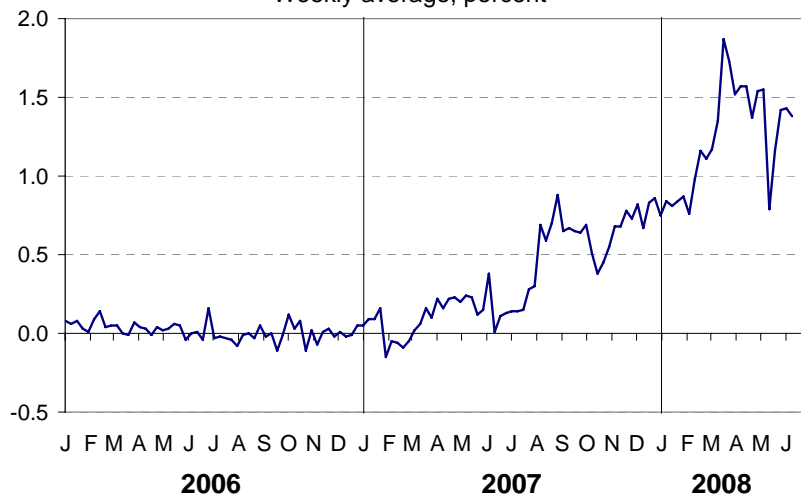
3-Month LIBOR Rate less 3-Month Treasury Bill Rate
Percent



3-Month LIBOR-OIS Spread
Percent



Spread Between Jumbo and 30-Year Mortgage Rates
Weekly average, percent



Dow Jones CDX Investment Grade Index

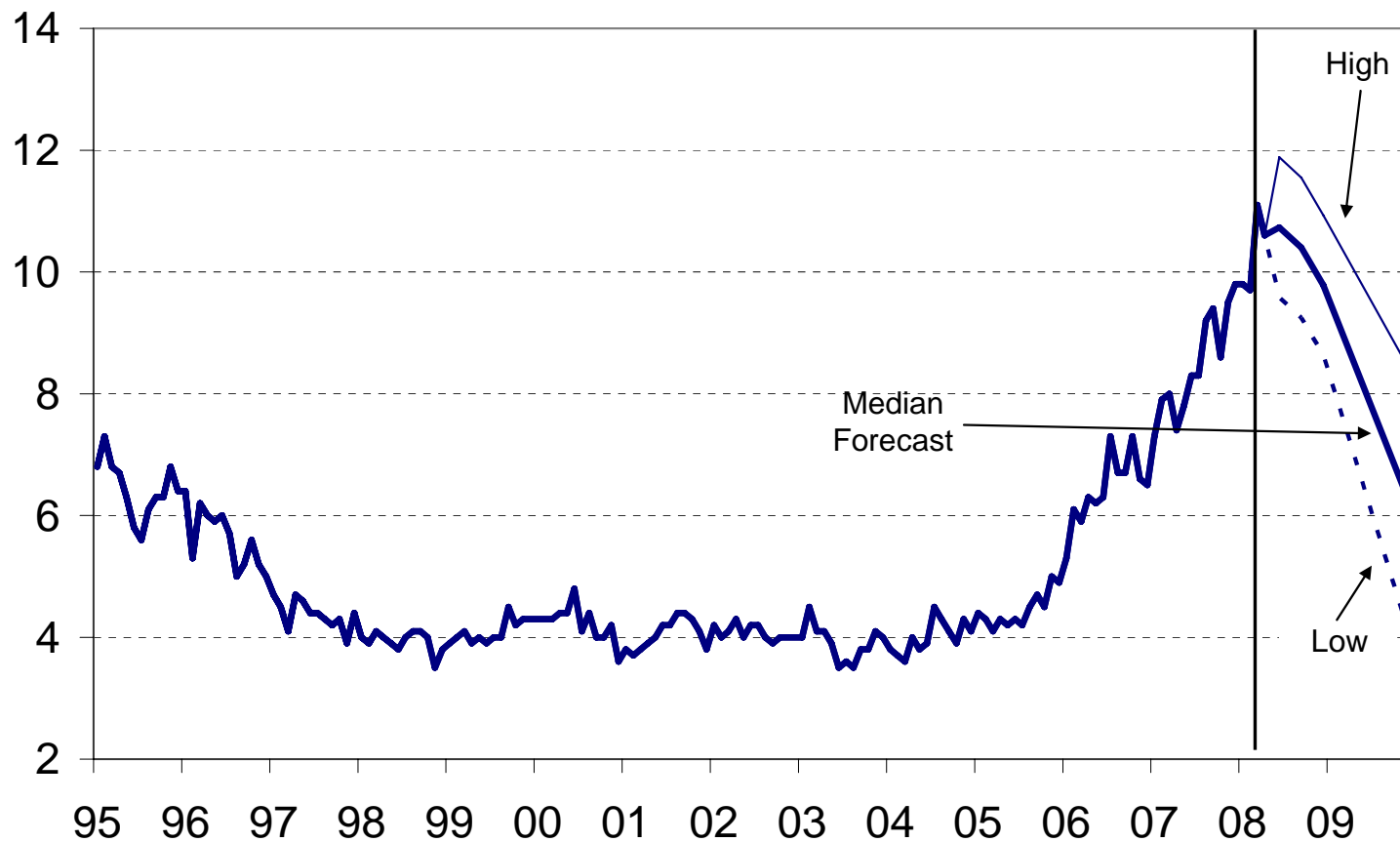


Sources: Reuters, British Bankers Association, Federal Reserve, CMAN-CMA New York, BanxQuote



Home Inventories Are Elevated

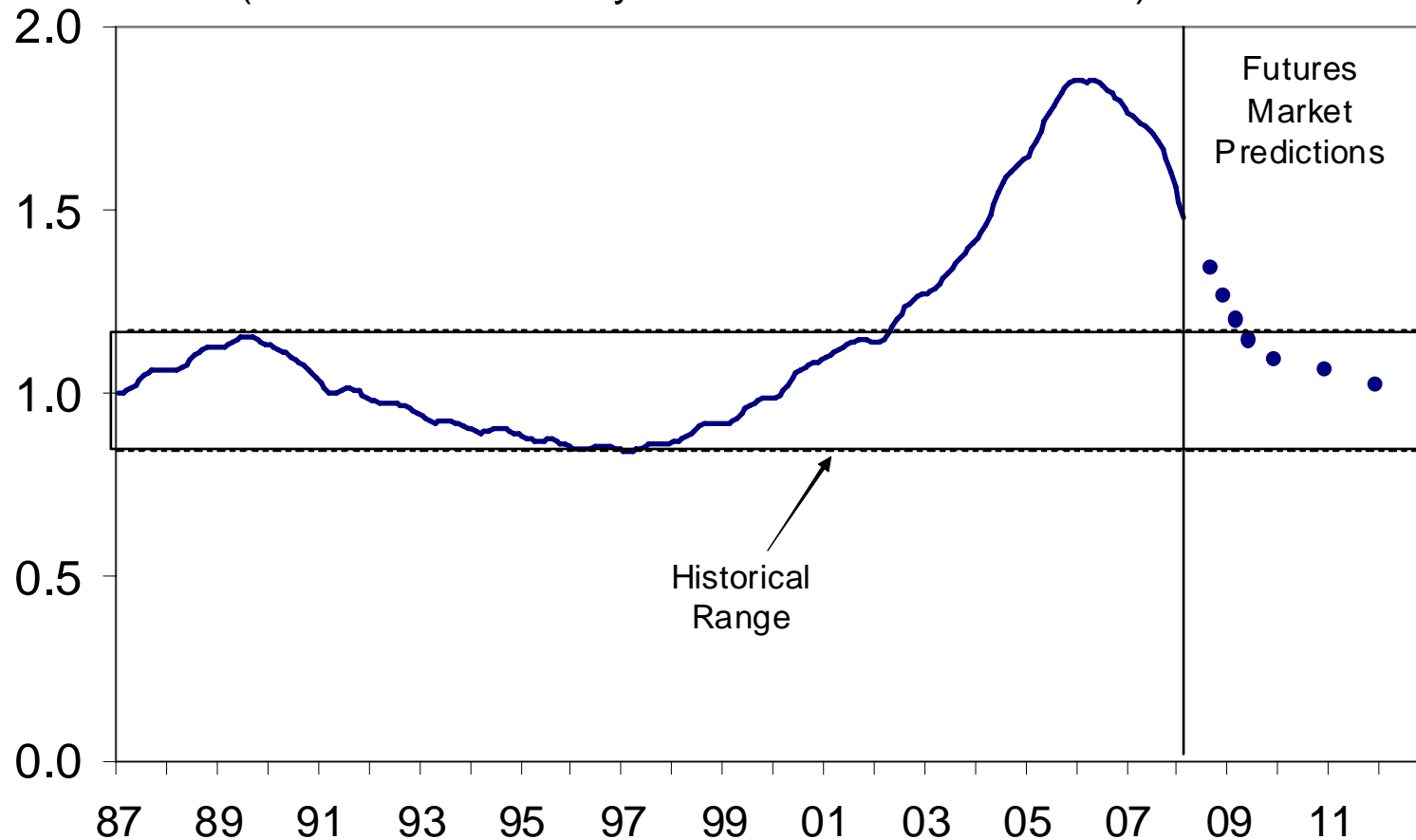
Months' Supply of New Single-Family Houses at Current Sales Rate





Home Price Declines

HOUSING PRICE/RENT RATIO
(Case-Shiller 10-City Price/Price Index for Rent)



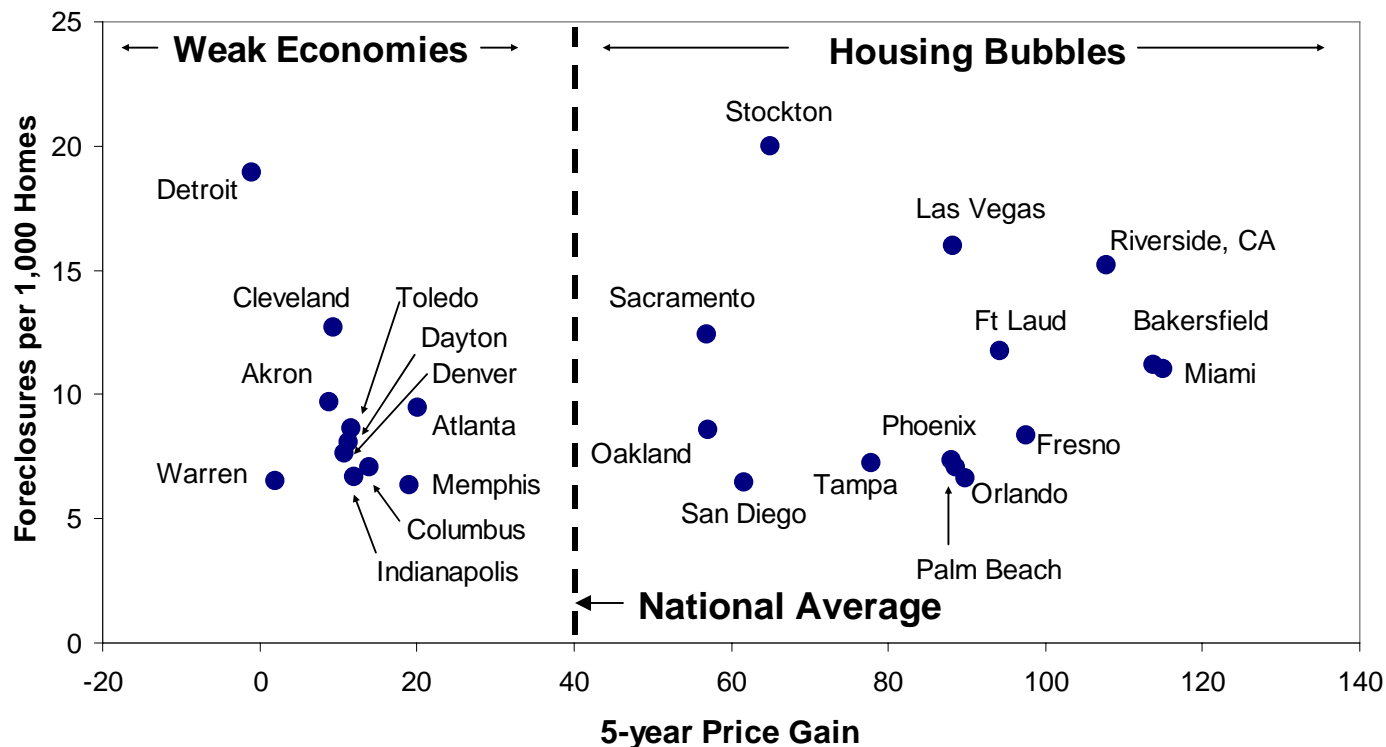


Regional View of Foreclosures

Strong appreciation or weak economies are drivers

Housing Bubbles vs. Rust Belt Recessions

5-year price gains vs. Foreclosures per 1,000 Homes



The top-25 “foreclosure hotspots” include areas where the housing downturn reflects the weak economy (IN, MI, OH), and areas where foreclosures reflect the end of a housing bubble that left the “last ones in” underwater (AZ, CA, FL, NV).

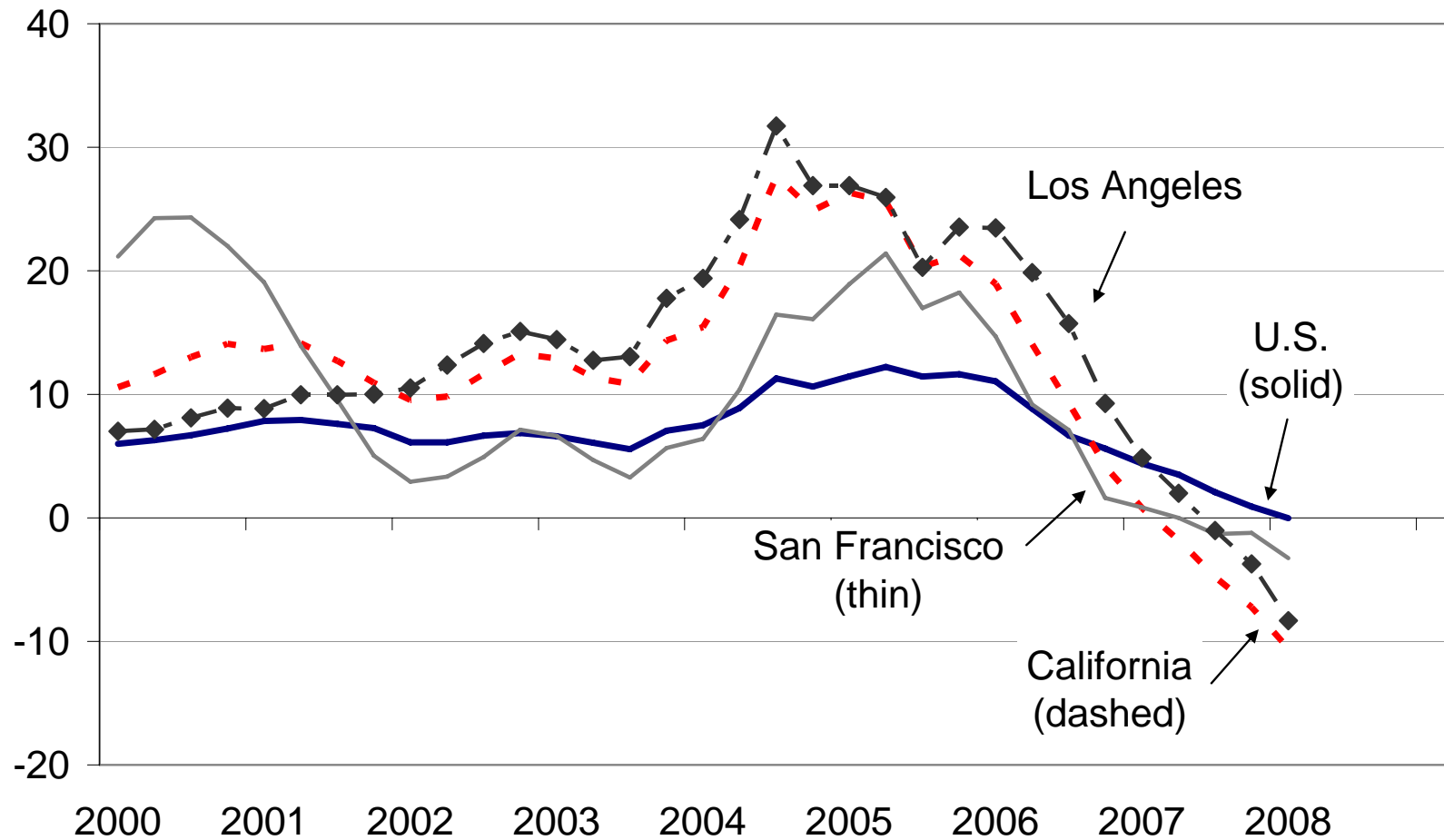
Source: RealtyTrac / OFHEO, 2008



House Prices in California

OFHEO Home Price Indexes

Year-over-year percent change

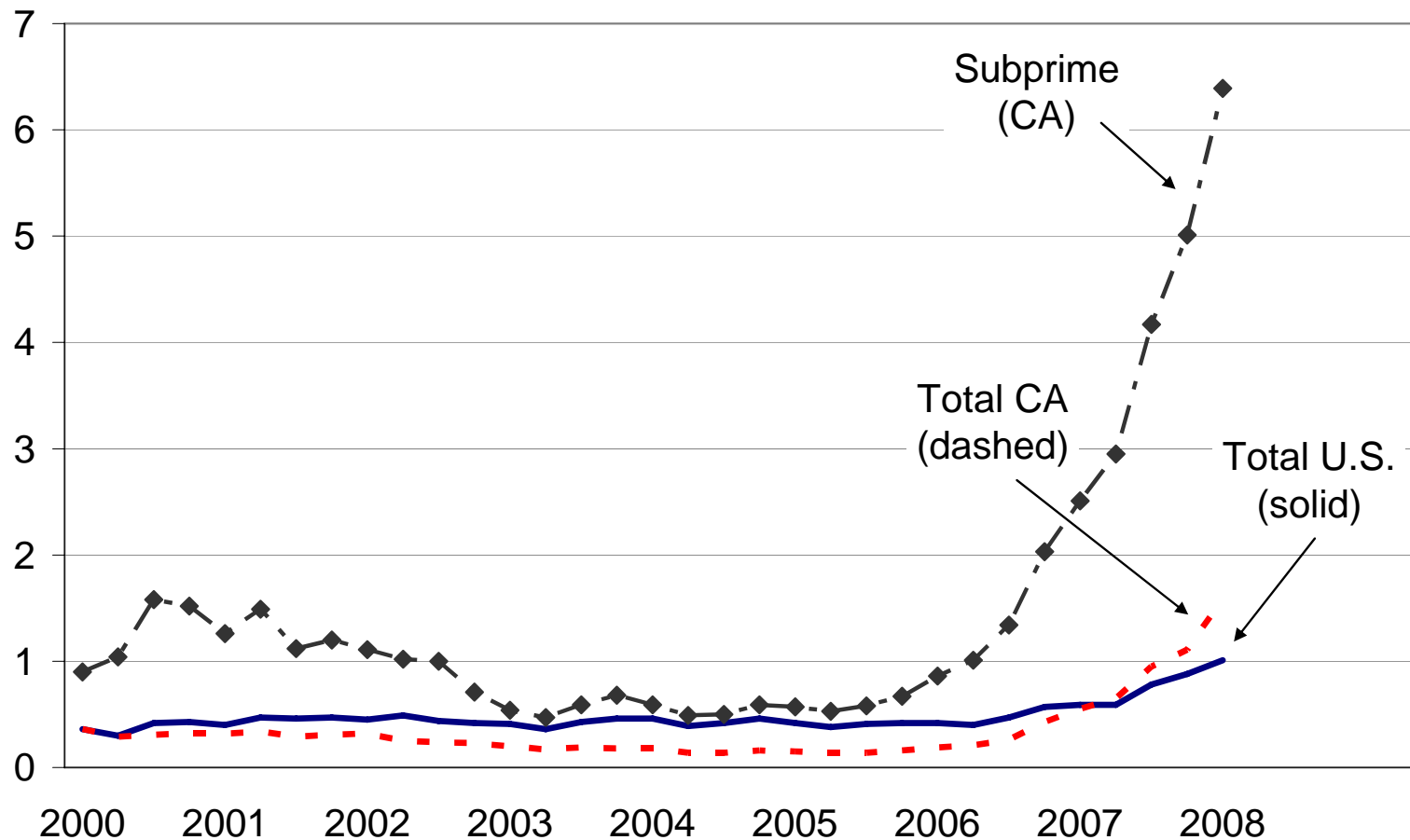




Foreclosures in California

Foreclosure Start Rates

Percent of mortgages serviced

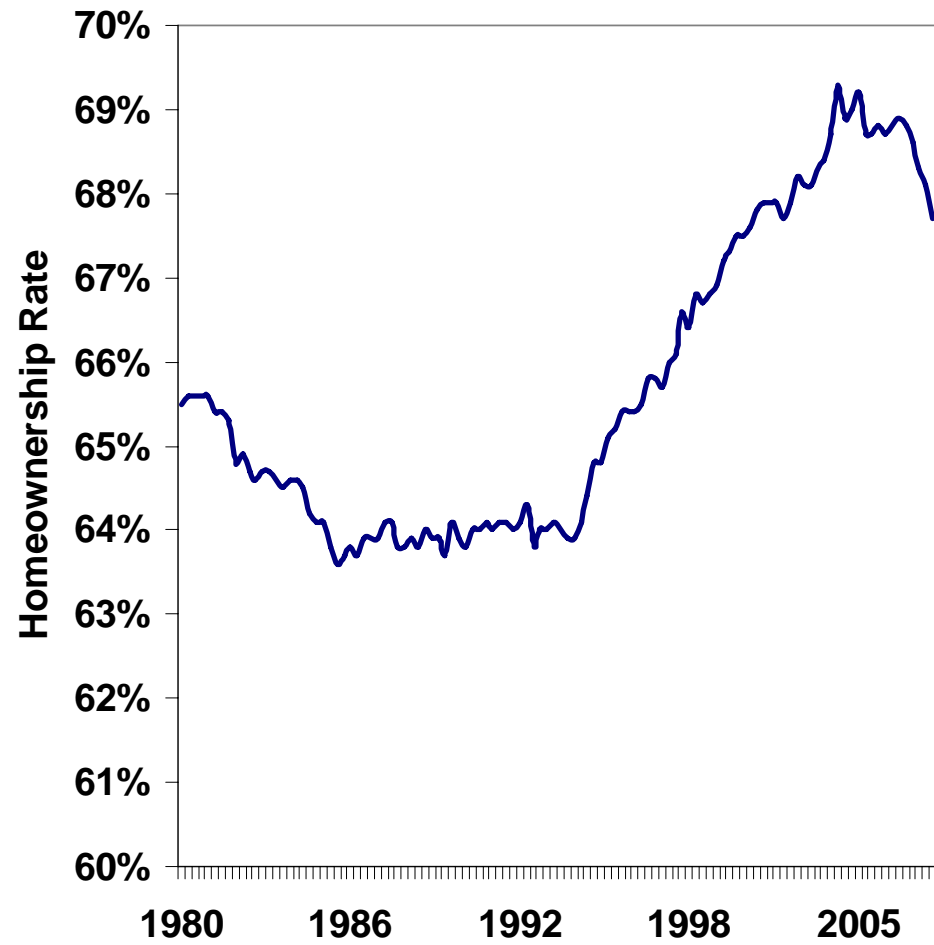




What Caused the Excesses?

Upside: more Americans became homeowners

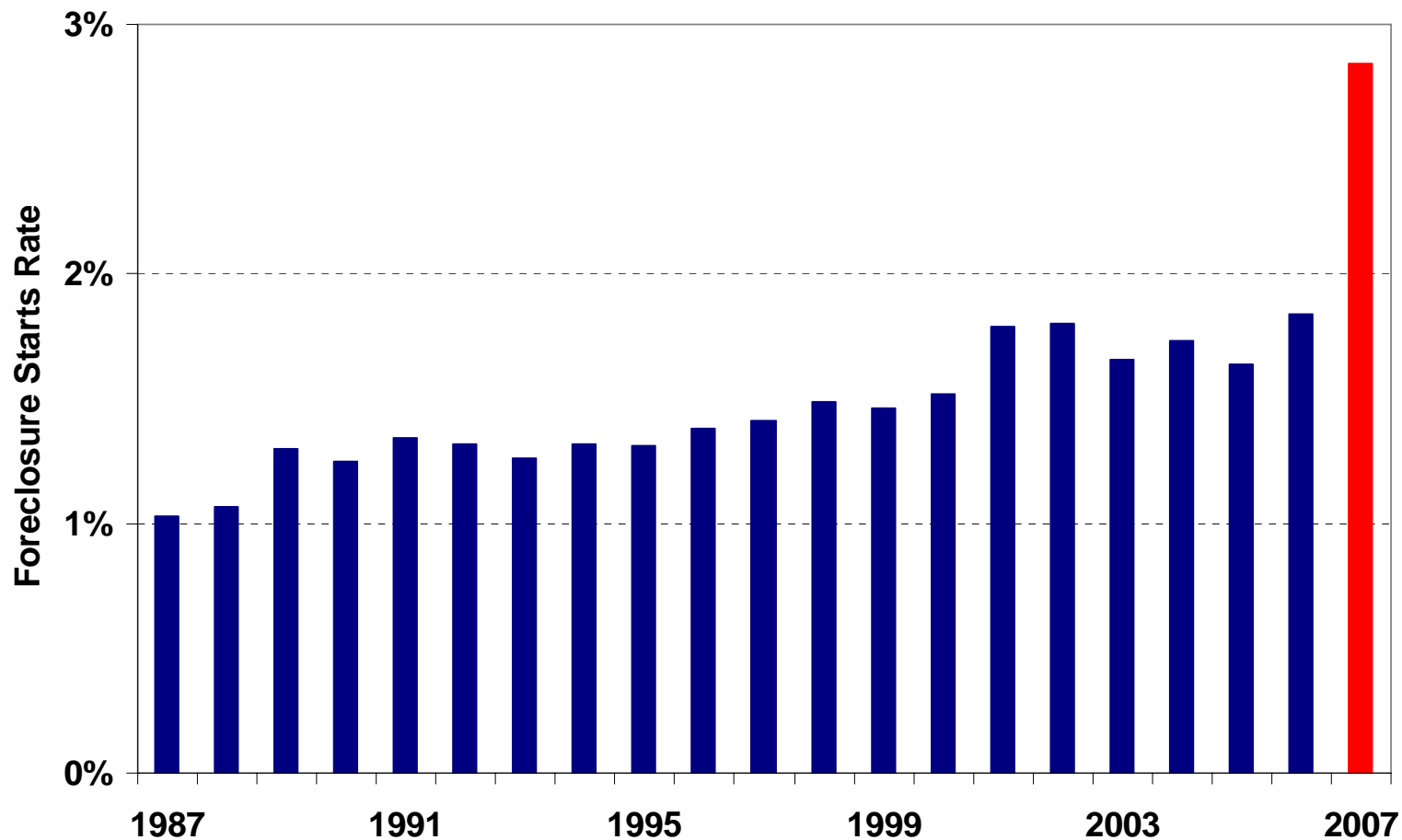
- Poor origination practices
 - Low-doc / no-doc
 - No money down
- New mortgage products
 - Subprime hybrid ARMs
 - Pay option ARMs
- Originate-to-distribute model
- Structured product complexity
- Cheap credit





Nationwide Foreclosure Starts

Foreclosures have climbed to new levels



Source: Mortgage Bankers Association, 2008

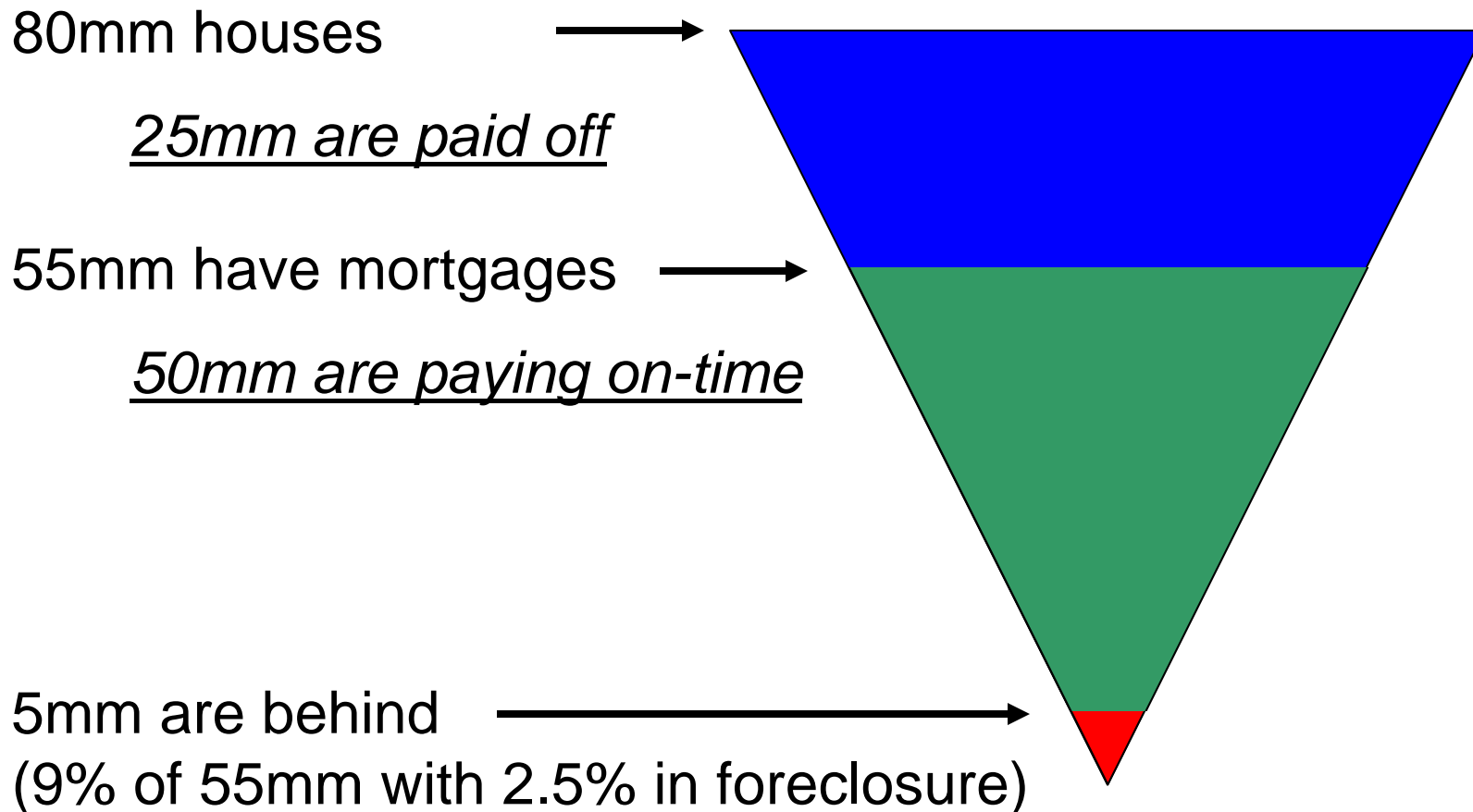


Foreclosures Are Costly for Everyone

- Homeowners and families
- Neighborhoods and communities
 - Each foreclosure lowers the value of other homes in the neighborhood and reduces the local tax base
- Lenders and investors
 - Foreclosures can cost 25-50% of a home's value
- The economy as a whole
 - Foreclosures add additional inventory to the housing market, putting pressure on prices, new construction and the wealth effect



The Problem in Perspective



This compares to 50% seriously delinquent in the 1930s



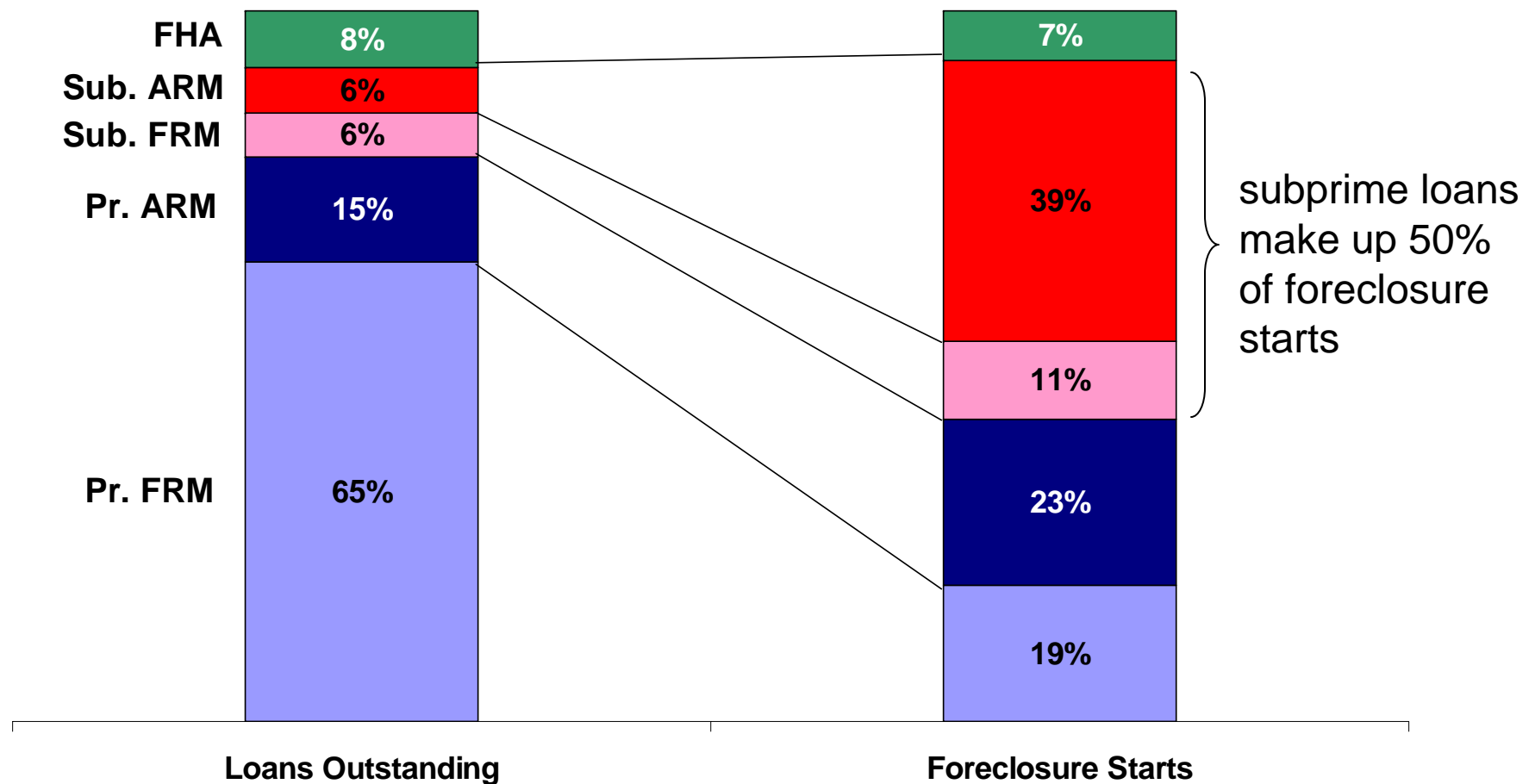
Our Housing Market Objectives

- Avoid preventable foreclosures
- Ensure the flow of capital into the housing market
- Enable the necessary housing correction to move forward as quickly as possible
- Minimize the spillover from housing to the real economy



Foreclosures by Product

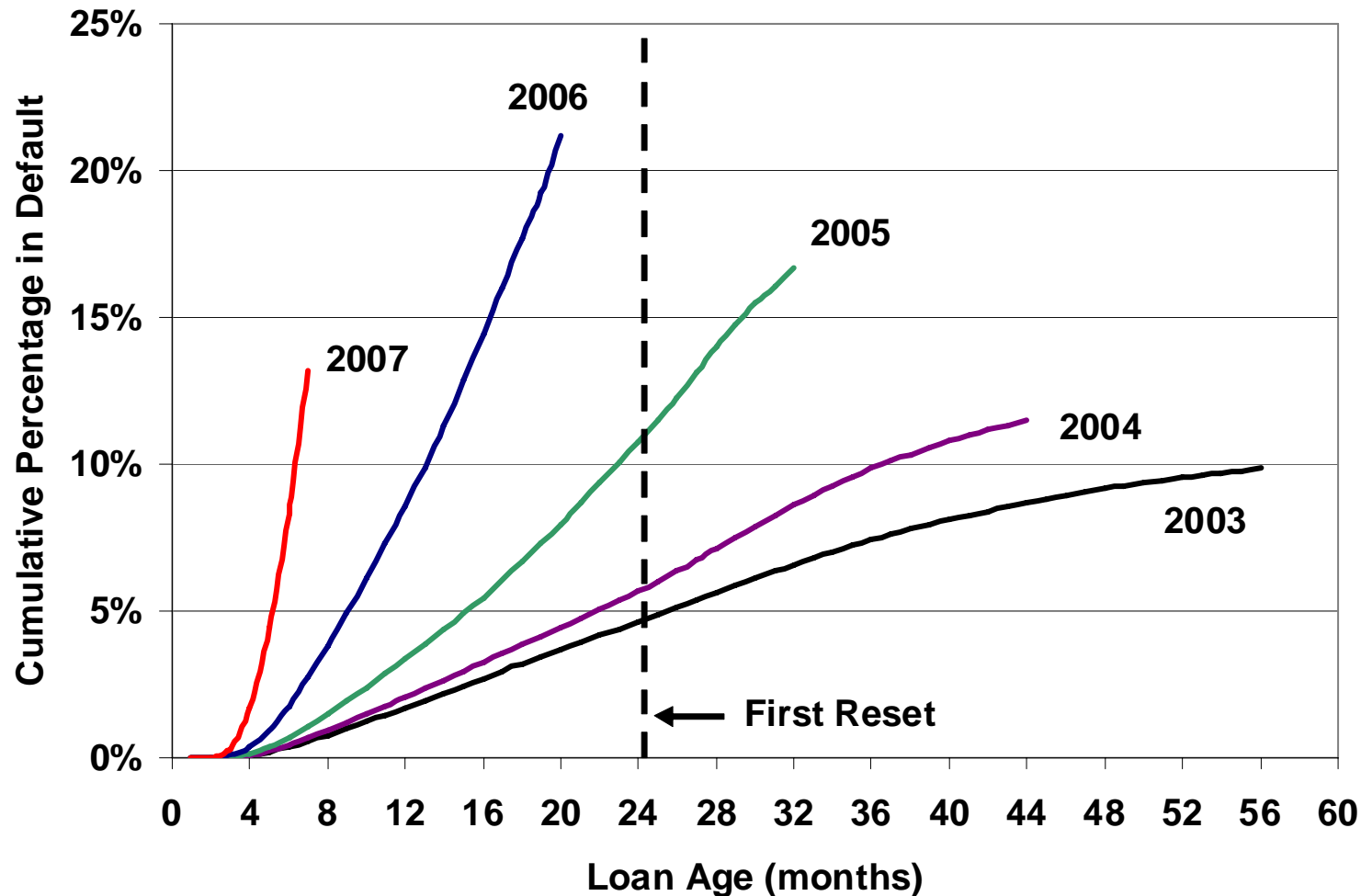
Foreclosures are highly concentrated in subprime





Subprime ARM Delinquency

Recent vintages show very poor underwriting



Source: Federal Reserve staff calculations from First American LoanPerformance data



Avoiding Preventable Foreclosures

- There were over 650,000 foreclosure starts a year from 2001 to 2005
 - Unfortunate life events happen: job loss, divorce, illness
- Some people bought more home than they could ever hope to afford
 - Many will become renters again
- Some people speculated on endless appreciation in either their primary residence or an investment property
 - Some may choose to walk away
- We are focused on people who both 1) want to keep their home and 2) have the financial wherewithal to do so



Today's Mortgage Market

Securitization has introduced new challenges

- Historically, a borrower in trouble would renegotiate with his local banker
- Today investors are scattered around the world - with servicers acting as intermediaries
- Many homeowners are scared or embarrassed and don't know that help is available
 - In as many as 50% of foreclosures, the homeowner never spoke with their lender
- Many market participants have been working hard individually with limited results
- A coordinated effort was needed



Our Housing Strategy Tools

- The HOPE NOW Alliance
- FHASecure
- Government-Sponsored Enterprises



The HOPE NOW Alliance

Reaching homeowners is the biggest challenge

- More than 25 mortgage servicers
 - Greater than 94% of the subprime market
 - Greater than 70% of the overall market

- Non-profit housing counselors
 - Leaders such as NeighborWorks America and the HomeOwnership Preservation Foundation

- Investors
 - Fannie & Freddie

- Trade organizations
 - American Securitization Forum / SIFMA
 - Mortgage Bankers Association
 - Financial Services Roundtable



The HOPE NOW Alliance

Multiple tools to reach and help homeowners

- Nationwide counseling hotline: 888-995-HOPE
- Best practices for servicers and counselors
- Notification to subprime borrowers 120-days pre-reset
- HOPE NOW letters to 60-day delinquent borrowers
- Servicers / investors funding counseling complementing government support
- ASF fast-track plan for subprime ARMs
 - Refinance or rate freeze for those who can pay the starter rate
- Project Lifeline for all highly delinquent borrowers
 - Possible foreclosure pause for borrowers who ask for help



Counselor Funding

Investors funding counseling for the first time

- Historically, counseling was supported by foundations and the government
- Congress and the President allocated \$350mm for counseling
- Investors benefit from reduced foreclosures and lower losses
- American Securitization Forum provided guidelines for servicers to seek reimbursement for counseling expenses from investors
- HOPE NOW and ASF have established a long-term, sustainable funding model that is in the best interest of both homeowners and investors



ASF Fast-Track Plan

Refinance and rate freeze for subprime ARMs

- 1.8mm 2/28s and 3/27s resetting in 2008 and 2009
- Possible market failure if servicers are unable to handle the volume of calls from troubled borrowers
 - Uses payment history, LTV, FICO to speed servicer decision making
- Borrowers who could not pay the starter rate will need case-by-case help
- Remaining borrowers who can not afford higher payment will be fast-tracked into a refinance or 5-year rate extension
 - Recent interest rate reductions have reduced the reset problem: protocols are now in place for when rates climb



Project Lifeline

Reaching out to borrowers most in need

- 90-day delinquent borrowers receive Lifeline notice
- Borrowers may qualify for a foreclosure “pause” of up to 30 days while a long-term solution is evaluated
 - Borrowers must call and express interest in keeping their homes
 - Provide updated financials to servicer
 - Servicer evaluates potential workouts
 - If a workout seems feasible, servicer will pause the foreclosure process
- Unlike across-the-board foreclosure moratoriums, borrowers who are most likely able to keep their homes self-select
- Allows the housing adjustment to move quickly while helping homeowners



FHASecure

FHA providing refinancing to subprime borrowers

- Provides 30 year, fixed rate mortgages to borrowers
- FHASecure provides refinancing for borrowers who defaulted due to a reset
 - Previously borrowers had to be current to qualify
- 220,000 borrowers have refinanced since August 2007
- FHA studying options to expand coverage administratively
- President Bush has called on Congress to pass FHA Modernization
 - Potential help for an additional 250,000 borrowers



GSEs

Playing a countercyclical housing market role

- Economic stimulus bill raised loan limits for GSEs and FHA
 - New limits as much as \$729,750 in high cost areas
- Federal Home Loan Banks to purchase ~\$100bn of GSE paper
- OFHEO eliminated portfolio caps and reduced capital ratio in exchange for plan to raise substantial additional capital
 - Could provide up to \$200 billion in additional liquidity
- GSE Reform
 - Must ensure that they have a regulatory structure that is on par with other financial institutions



What Should We Do About “Underwater” Borrowers?

- Much has been made of estimated 9mm who owe more than their home is worth
- Being “underwater” does not change one’s ability to pay one’s mortgage
- For the vast majority of Americans, their home is not just a short-term investment
- Homeowners who can afford their mortgage but walk because they are underwater are merely speculators
- It is not the government’s job to make people whole for their investment losses



Are Principal Write-downs Appropriate?

- Borrowers with an affordability problem
 - Affordability problems can often be solved by reducing interest rates and extending the mortgage term
 - Servicers generally reduce principal in conjunction with other, less costly, alternatives

- Borrowers with an equity problem
 - Servicers and investors are reluctant to reduce principal due to moral hazard
 - Losing 40% on one loan is better than 10% on five



How Do Servicers Evaluate Loan Modification Options?

		Current CLTV											
		40%	50%	60%	70%	80%	90%	100%	110%	120%	130%	140%	150%
Necessary Payment Reduction	10%	FC	T	T	T	T	T	T	T	T	T	T	T
	20%	FC	T	T	T	T	T	T	T	T	T	T	T
	30%	FC	FC	TR	TR	TR	TR	TR	TR	TR	TR	TR	TR
	40%	FC	FC	FC	FC	TR	TR	TR	TR	TR	TR	TR	TR
	50%	FC	FC	FC	FC	FC	TR	TR	TR	TR	TR	TR	TR
	60%	FC	FC	FC	FC	FC	FC	FC	TR	TR	TR	TR	TR
	70%	FC	FC	FC	FC	FC	FC	FC	FC	TRP	TRP	TRP	TRP
	80%	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	TRP	TRP
	90%	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC
	100%	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC	FC

Legend

FC	Foreclosure
T	Term Extension
TR	Term Extension + Rate Reduction
TRP	Term Extension + Rate Reduction + Principal Writedown

Illustrative Assumptions

- 60% Current value recovery in foreclosure
- 40 Maximum loan term
- 2.0% Minimum interest rate
- 50% Minimum principal

Note: Ignores second liens and ignores short-sale as a loss mitigation option



Measuring Results

- **More people are calling for help**
 - Hotline receiving 3,500 calls per day up from 625 in August
 - 20% response rate to HOPE NOW letters – over 1.4mm letters sent (over 200k per month)
- **More people are getting workouts**
 - Almost 1.6mm people received a workout since July
 - Loan modifications growing faster than repayment plans
- **More people are refinancing**
 - Over 220,000 people have refinanced into FHA since August



Measuring Results: All Loans

(numbers in thousands)	Q1-07	Q2-07	Q3-07	Q4-07	Q1-08	Q2-08 (Est.)
Repayment Plans	271	275	323	333	313	306
Modifications	54	65	76	141	174	225
Total Workouts	324	340	399	475	486	531
Modifications as a % of Workouts	17%	19%	19%	30%	36%	42%



Measuring Results: Sub. ARMs

Minimizing foreclosures for those who could afford the starter rate

- 602,552 subprime 2/28 and 3/27 scheduled to reset in Q1 2008
- 272,812 (45%) were paid in full through refinancing or sale
- 30,545 were modified
 - Nearly 63% were modified for 5 years or more
- Only 927 loans that were current at reset have entered foreclosure



When Will the Correction End?

- Some people fear a vicious cycle of lower home prices, increased foreclosures, increased inventories leading to even lower prices
- Homebuilders cutting production are the key to breaking the cycle
 - Single-family starts are falling – as one would expect – down 63% to 674k per year in May from 1.8mm peak in early 2006
 - Household formation is about 1.2mm per year
- We are working through the excess inventory
 - New home inventory is down 20% to 456,000 units in April from peak
- As prices continue to fall, we expect buyers to step into the market